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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D. C. 20548

FOR RELEASE ON DELIVERY  
EXPECTED AT 1:00 p.m. EDT  
DIRKSEN SENATE OFFICE BUILDING  
JUNE 2, 1981



STATEMENT OF  
EDWARD A. DENSMORE, DEPUTY DIRECTOR  
HUMAN RESOURCES DIVISION  
BEFORE THE  
SENATE COMMITTEE ON LABOR AND HUMAN RESOURCES  
ON  
THREE GAO REVIEWS OF CONTRACT ADMINISTRATION  
BY THE NATIONAL CANCER INSTITUTE

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Mr. Chairman and Members of the Committee, we are pleased to be here today to discuss three GAO reports issued between February 1978 and June 1980 which deal with contract administration activities of the National Cancer Institute (NCI).

At the outset, I would like to make it clear that the work we did does not represent an overall assessment of NCI's contract administration. We identified a number of deficiencies; however, we examined only seven contracts, and some of these because of indications that problems existed.

Our first report, issued to Congressman David R. Obey on February 10, 1978, discussed numerous problems with a contract between NCI and the University of Nebraska's Eppley Institute. This contract was awarded in 1973 for about \$3.4 million and initially covered an 18 month period. At the time of our report the contract had been extended by 4 years and nearly \$13 million had been added to the original award.

NCI's administration of the Eppley Institute contract was faulty because:

1. The technical review to determine the scientific merit of the contract proposal was not made by any of the standing committees chartered to make such reviews. This violated NCI's contracting procedures.

2. Members of the ad hoc group which reviewed the proposal never met as a group or rendered a consensus opinion on scientific merits of the proposal. This also violated NCI contracting procedures.
3. Much of the technical reviewers' advice was ignored by NCI officials resulting in some projects being funded as part of the contract even though they were of low priority or were not recommended for funding.
4. The bases for contract decisions were not documented. An administrative decision was made within NCI to extend the 1973 contract award period by six months more than the contractor's proposal requested. Also, \$1.1 million was added to the award. NCI officials did not know who made this decision.
5. \$375,000 could have been eliminated from the 1973 contract award had NCI adopted the technical reviewers' budget recommendations.
6. The justification for awarding the contract on a sole source basis was based on unsupported conclusions; not on facts as required by contracting instructions.

7. NCI officials were generally unaware of what had been accomplished under the contract.
8. The NCI contracting officer took little action when the contractor failed to submit two consecutive semi-annual progress reports or information necessary to assure compliance with the terms of the contract.
9. The project officer orally approved work by the contractor on projects not previously authorized under the contract. He did not have authority to do this. Further, he did not review progress reports, as required, and was unaware that some reports had not been submitted.
10. In 1976, NCI approved a contract modification which included over \$237,000 to upgrade an animal breeding facility. NCI officials were not aware that the breeding operation was producing animals excessive to research needs. We found that about 62 percent of the animals bred in 1976 were killed without being used for research purposes.

We recommended several steps NCI should take to improve administration of the contract. As discussed in our report, NCI concurred with and has taken action on most of the recommendations.

The second report, issued to Congressman Henry Waxman on March 30, 1979, discussed NCI's inadequate administration of a contract with Tracor-Jitco, Inc. Under the contract, Tracor-Jitco was to (1) develop a plan to eliminate a backlog of bioassays, (2) manage NCI's bioassay testing activities, and (3) subcontract with laboratories to have bioassays done. The original contract which was awarded competitively, was to run from March 1974 to May 1975 at a cost of about \$6.6 million. At the time of our review NCI had modified the contract several times and extended the completion date from May 1975 to May 1979. The most significant increase in the contract occurred in June 1975 when NCI increased the contract amount from about \$6.6 million to \$41.3 million.

Under this modification, NCI increased Tracor-Jitco's workload and broadened its responsibilities to include the preparation of technical bioassay reports. Tracor-Jitco was to be paid a fixed fee of about \$198,000, and an award fee of about \$3.2 million depending upon NCI's satisfaction with the contractor's performance.

NCI's monitoring of Tracor-Jitco's efforts in preparing bioassay reports was good; however, NCI's monitoring of Tracor-Jitco's management of other bioassay activities was inadequate. NCI relied primarily on summary reports from Tracor-Jitco to assess its bioassay management performance

and did little independent verification. As a result, NCI was unaware that Tracor-Jitco

--did not include in its summary reports to NCI all subcontractor laboratory deficiencies found by Tracor-Jitco inspectors,

--did not assure that deficiencies were corrected, and

--did not detect certain deficiencies which we found during our inspections of subcontractor laboratories that could affect the quality of bioassays.

Since NCI was not aware of these matters, it did not have information which should have been used to determine the amount of the award fee paid to Tracor-Jitco. According to the NCI contracting officer responsible for the contract, Tracor-Jitco earned about 55 percent of the award fee it was eligible to receive at the time of our review.

We believe that when an award fee type of contract is used, it is not prudent management to rely on the contractor to report problems which could affect the amount of profit the contractor can earn.

We recommended that the Secretary of Health, Education, and Welfare require the Director of NCI to: (1) more closely monitor the performance of Tracor-Jitco by making more frequent site visits to the subcontractor laboratories

and by verifying that Tracor-Jitco has required the laboratories to correct deficiencies found during its inspections and (2) use this information in determining the amount of the award fee. In response to our recommendation for improved contract monitoring, NCI required the contractor to submit complete reports on its inspections of subcontractor laboratories. NCI also assigned additional project officers to monitor each subcontractor laboratory and a chemical manager for each chemical assigned to bioassay under Tracor-Jitco's responsibilities.

After our review, NCI further extended the contract for 4 years at an additional cost of \$65 million. About \$3.3 million was an additional award fee. However, NCI has paid Tracor-Jitco only 47.5 percent of the award fee it could have earned since June 1979.

The final report we will discuss was issued to Congressman David R. Obey on June 13, 1980. The report discussed weaknesses in both contract award and monitoring for five cancer control program contracts. Our principal findings were:

1. Two contracts were awarded without NCI revising its project plans as required by contracting guidelines. In one case, the NCI official who approved the contract was unaware that she was approving a \$2.8 million contract instead of the \$880,000 contract called for by the original project plan.

The plan revision document she signed did not show the revised cost estimate. In the other case, the contract was one of several contracts awarded under a cervical screening program. NCI did prepare a revised plan for the entire program which showed a reduction in first year costs, but it made no mention that the contract we reviewed was being tripled in cost from \$750,000 to about \$2.5 million. Although NCI contended that revised project plans were prepared in both cases, we did not believe that properly revised project plans were prepared in either case.

2. NCI failed to correct deficiencies reported by pre-award review groups for two contracts. For one contract, deficiencies not corrected before the contract was awarded contributed to the contractor not achieving certain contract objectives.
3. The five contracts were classified as demonstration projects, which were sponsored to encourage local communities to eventually take over their funding. NCI did not know to what extent this objective was being achieved because contractors were not required

to report on progress in obtaining local funding for the projects.

4. NCI did not implement recommendations of post-award review groups. Although NCI advised the contractors of recommendations made by reviewers, we found no evidence that NCI ever directed the contractors to implement the recommendations nor was there evidence that the contractors did implement them. NCI contended that this problem, caused by a lack of cooperation between contract and project officers, had been overcome by initiating various interaction mechanisms between these officials which did not previously exist. Although the mechanisms were established in 1975, they apparently were not working at the time of our review in 1980.
5. Thirteen of 33 tasks to be done under three of the contracts were not accomplished. However, payments to the contractors were not reduced because of this since under the terms of the contracts all NCI could require of the contractors was that they make their best effort to accomplish the tasks.

We have discussed examples of weaknesses GAO found in NCI's administration of seven contracts. Other reviews of NCI contract administration during the last 5 years have pointed out similar weaknesses.

In October 1978, the Surveys and Investigations Staff of the House Appropriations Committee, after studying NCI's largest contract award, reported that the most evident abuse of the Federal Procurement Regulations was NCI's failure to effectively administer the contract. Also, the report said that the contracting officer was being circumvented and that the responsibilities of the contracting and project officers had been subverted.

You have heard from the HHS Inspector General's staff about the two broad-scale reviews they made of NCI contracting operations in 1978 and 1980. Their testimony indicated that the problems we discussed are similar to those found during their reviews.

Mr. Chairman, this concludes our statement. We shall be happy to answer any questions that you or other Members of the Committee might have.